PULP & PAPER

March 1982

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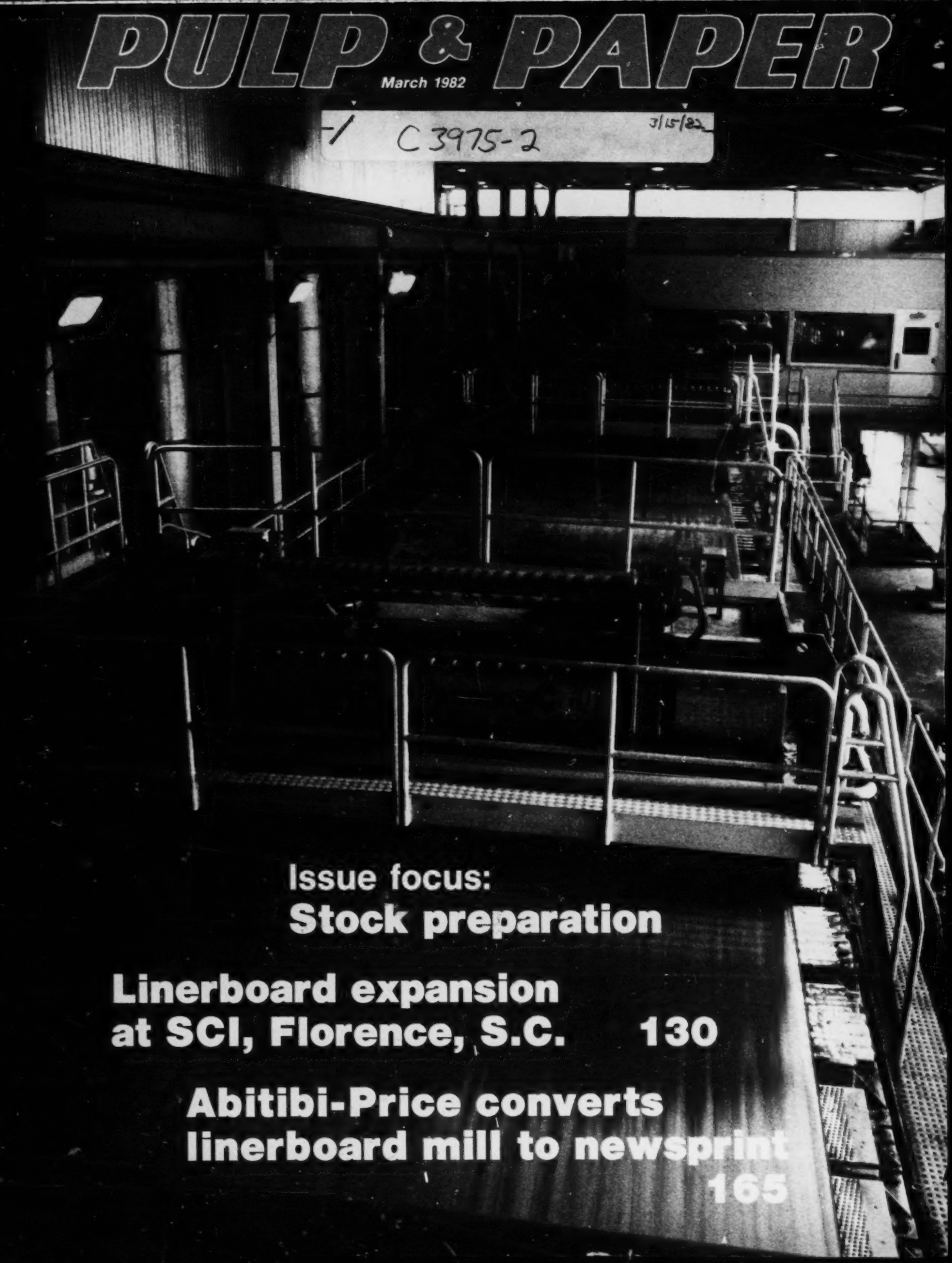


Issue focus:
Stock preparation

Linerboard expansion at SCI, Florence, S.C. 130

Abitibi-Price converts linerboard mill to newsprint 165

PULP&PAPER

Volume 56 Number 3 March 1982

Abitibi-Price 165

SCI 130

ISSUE FOCUS: Stock Preparation

65 **Stock preparation system simulation** provides rapid determination of fiber losses, chemical and steam use, and water system balance

86 **Stock system pulsations** are reduced by pressure screen modifications; critical factors in controlling pressure pulses at headbox are discussed

109 **Centrifugal cleaning system** results in increased production, lower dirt levels, and reduced effluent load in bleached market pulp mill

134 **Reverse cleaners:** efficient operation requires proper balance of inlet pressure/feed rate and pressure drop across unit; staging is key factor

153 **Vacuum disc thickener** is used for TMP deckering at Boise Cascade

177 **Modular design for recycled fiber systems** matches equipment to furnish and end product requirements, resulting in an efficient operation

Mill operations

68 **Sulfite vs kraft:** Why Fraser Paper went against the trend and chose to modernize/expand two old sulfite mills rather than convert to kraft

90 **Cornwall Paper upgrades** custom-order corrugating medium mill

92 **Dewatering press** handles wide range of pulp input consistencies

114 **Longview Fibre cuts energy use** by series of process modifications

130 **Stone Container's latest expansion** at Florence, S.C., includes linerboard machine, recycled fiber plant, new central whitewater, stock systems

137 **Automated labeling system** reduces label costs by 60%

165 **Linerboard-to-newsprint conversion** by Abitibi-Price at Stephenville, Nfld., includes paper machine rebuild, new TMP plant, woodyard changes

184 **Supercalendering:** European vs U.S. techniques

Engineering/maintenance

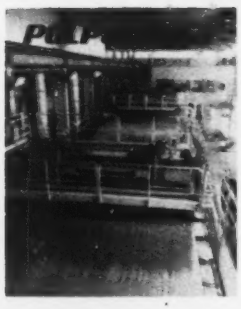
72 **Energy-efficient pump motors** reduce power use at Great Northern

149 **Byproduct power generation** maximized with low-pressure dryers

154 **Hog fuel predryers** improve wastewood boiler operations, efficiency

170 **Modern refiners** require special maintenance, lubrication systems

182 **Pump selection, sizing:** how to reduce power wastage in pumping



News, columns, departments, services on page 5

Cover: Fourdrinier section showing primary and secondary headboxes on Stone Container's new 400-tpd linerboard machine at Florence, S.C. (Photo by Scott Robertson, BE&K Inc.).

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BPA

PULP&PAPER

Continued from page 3

International Paper 27

NEWS

9 **News Summary** —News Roundup, News of People, and Supplier News
11 **Month in Statistics** —U.S. paper and paperboard production
13 **Marketing Roundup** —Pulp, liner, kraft, newsprint pricing
25 **News Roundup** —U.S. paper profits tumble; plus other news
33 **Technology Roundup** —R&D spending; SAP process; wood powder fuel
41 **International News** —Brazilians take Jari project; price fixing in Japan
43 **Regulatory Roundup** —Reagan backs Clean Air; OSHA eases up
49 **Grade Profile** —Tissue
51 **Conference Calendar** —with TAPPI Papermakers Conference notes

Garrigan 47

Busch 189

Skoggard 238

COLUMNS

5 **Editors' Notebook** —Stock preparation; new business outlook column
45 **Washington Viewpoint** —HR 5252: Clearing the air
47 **Business Outlook** —Recovery may bring jump in pulp prices
187 **Career Development** —Handling employee complaints
195 **Maintenance Tips** —Oil analysis; electrical system; valve seats
221 **Chemical Markets** —Sodium carbonate
238 **Comment** —Looking ahead to the year 2000

DEPARTMENTS

189 **News of People**
201 **New Products**
211 **Product Review**
215 **Literature**
219 **Bookshelf**
219 **Letters to the Editor**
222 **Supplier News**

SERVICES

197 **Readers Service Card**
199 **Readers Service Index**
225 **Professional Service Directory**
226 **Classified Advertising**
236 **Advertisers Index**

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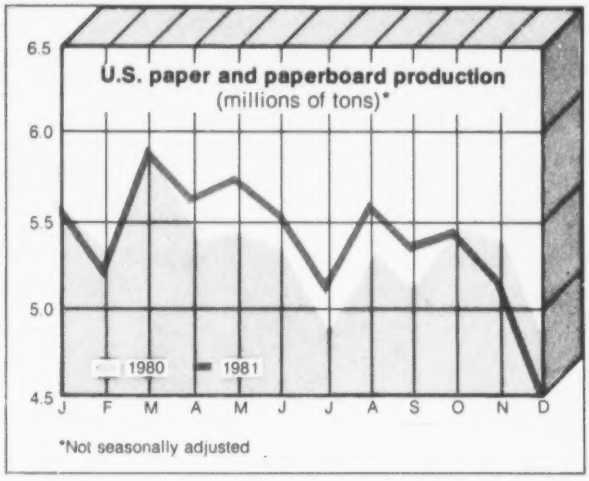
MONTH IN STATISTICS

U.S. paper and paperboard production fell off sharply in the final weeks of 1981, reaching only 4.4 million short tons in December, and bringing the seasonally adjusted annual rate for the month to about 5.5% below its November level, according to the American Paper Institute. Mills extended their normal vacation downtime, and several mills shut down completely.

For the year, however, total production reached 64.6 million tons, 1.2% above 1980. Preliminary data for the early weeks of 1982 show paper production moving back to the levels held before year-end shutdowns.

Among major grades, only newsprint production showed any strength in December, rising 6% above year-earlier levels. Uncoated groundwood and free-sheet grades continued in their downward trend, and coated papers weakened. Paperboard production declines were steep, and for all major grades output was well below 1980 levels.

Total Canadian newsprint shipments in December came to 800,000 metric tons, up 8.8% over a year ago, according to the Canadian Pulp & Paper Assn. Mill operating rates were 96% vs 94% in 1980, bringing the year-to-date rate to 94%.



		Latest month (000 short tons)	% change from year ago	Annualized year-to-date (000 short tons)	% change from year ago
PAPER & PAPERBOARD PRODUCTION[1]					
Newsprint	December	395	5.9	5,239	12.1
Uncoated groundwood (s)	December	111	−10.5	1,440	−3.9
Coated paper (s)	December	383	−5.0	4,925	5.4
Uncoated free sheet (s)	December	553	−13.6	7,861	−1.5
Unbleached kraft packaging and industrial (s)	December	269	−11.5	3,881	−1.0
Tissue	December	350	0.9	4,485	2.5
Total paper	**December**	**2,276**	**−6.7**	**30,982**	**2.6**
Kraft linerboard, unbleached	December	908	−12.0	14,558	2.3
Semichemical medium	December	320	−11.1	4,717	−0.1
Bleached paperboard	December	269	−9.1	3,926	1.6
Recycled paperboard	December	472	−14.8	7,070	—
Total paperboard	**December**	**2,035**	**−12.0**	**31,338**	**1.2**
Total paper and paperboard*	**December**	**4,448**	**−8.2**	**64,463**	**1.2**
PULP, WASTEPAPER & FIBER[2]					
Total woodpulp production	November	4,409	−0.8	52,534	3.1
Market pulp production	November	538	−2.2	6,291	−4.0
Wastepaper consumption at paper/board mills	November	1,225	−0.8	15,694	4.5
Pulpwood consumption (cords)	December	6,459	−4.7	80,668	−0.5
CONVERTED PRODUCTS STATISTICS[3]					
Corrugated box shipments (billion ft²)	December	17.600	−8.6	245.200†	1.6
Containerboard inventories at box plants	Dec. 1	2,600	41.6		
INTERNATIONAL TRADE[2]					
U.S. paper imports (including products)	November	732	10.7	8,396	−4.8
Imports of Canadian newsprint	November	620	10.9	6,960†	−2.4
U.S. paper exports (including products)	November	347	−17.6	4,690	−10.1
Exports of unbleached kraft linerboard	December	152	−6.7	1,824	−23.4
Exports of woodpulp	November	266	7.7	3,669	−3.5
CANADIAN STATISTICS[4] (reported in metric tons)					
Total newsprint shipments	December	800	8.8	8,917†	3.4
Operating rates	December	96%	94%	94%	94%
Inventories held by U.S. consumers	Dec. 31	1,502	37.8		
Woodpulp shipments (export only)	December	561	−5.4	6,591†	−8.4
Operating rates	December	89%	93%	87%	95%

1. American Paper Institute. 2. API, Bureau of Census, American Pulpwood Assn. 3. Fiber Box Assn., Paperboard Packaging Council. 4. Canadian Pulp & Paper Assn. *Includes construction and wet machine grades. †Not annualized. ‡Not directly comparable to year ago because of coding change. (s) = shipments.

FINANCE

U.S. paper profits tumble in fourth quarter

As the recession's impact on the pulp and paper industry picked up momentum in the fourth quarter, U.S. pulp and paper companies saw earnings fall 11% below year-earlier levels on a 0.2% rise in sales, according to a PULP & PAPER survey of 21 companies. Fourth-quarter after-tax profit margins dropped to 5.2% from 5.9% in the fourth quarter of 1980.

Much harder hit, however, were seven more companies with large forest products holdings, which saw earnings fall 27% as sales declined 6%. Fourth-quarter earnings for the total paper/forest products industry were down 17%.

By comparison, profits for U.S. industry as a whole slid 6% for the quarter following a 14% year-to-year increase in the third quarter, a *Wall Street Journal* survey of 435 firms found.

IP profits down. International Paper Co. posted profits of $239.6 million for the fourth quarter, but the results include a $215-million gain from the sale of Canadian International Paper, and a $12.5-million writedown for phaseout of certain West Coast wood products operations. On an operating basis, IP's profits came to $37.1 million, down 52% from 1980's level.

"In the fourth-quarter," said IP chairman and CEO Edwin A. Gee, "the housing market and our wood products business continued to be severely depressed. In addition, the general decline in the economy had a significant impact on our paper and packaging businesses."

Results for most other integrated pulp and paper/forest products companies were similar. The prolonged depression in the housing market continued to gouge lumber and plywood markets, which, along with the fall-off in exports to recession-impacted Europe and Japan, dropped profits below year-ago levels for over half of the paper/forest products companies.

Helping to prop up earnings for several companies, however, were investment and energy tax credits for capital spending projects, which reduced the 1981 effective tax rate. In addition, Mead, Scott, Southwest Forest, Boise Cascade, and Potlatch took advantage of the Economic Recovery Tax Act of 1981 and sold unusable tax benefits, improving their earnings picture.

Paper, packaging weakening. Demand remained strong throughout the fourth quarter for coated free sheet and specialty grades and for tissue and sanitary papers. Softening was seen for lightweight coated and uncoated paper, however.

Several companies reported a slowdown in demand for kraft and recycled packaging and converted products, intensifying the cost/price squeeze which began building in the previous quarter. And the fall-off in linerboard and hardwood pulp demand, which began about mid-year, continued into the quarter, contributing to occasional downtime and pricing weakness.

Outlook gloomy. The near-term outlook is simply not good, as most companies see no improvement in general business conditions until at least the second quarter, and probably later. Even with an upturn predicted by the second half, companies are remaining cautious for the entire year. "The first quarter will be horrible," says Champion International's chairman and CEO Andrew C. Sigler, adding, however, that the company is "just going to tough this thing out."

Canadian profits tumble. Canadian paper company profits continued to be hurt by the depressed housing market, according to preliminary reports. British Columbia Forest Products reported a loss of C$1.2 million in the quarter, citing poor market conditions in its logging/wood products operations.

Consolidated-Bathurst, reporting earnings down 34% below end-1980, said an extraordinary credit from sale of its investment in Abitibi-Price was partly offset by writeoffs from its investment in Forges HPC Ltée. and for provisions for eventual shutdowns of pulp/paper facilities replaced by capital improvements. Domtar, whose profits tumbled 54% from a year ago, said while the housing market took its toll, profit margins were somewhat improved for newsprint and groundwood specialties.

U.S. PAPER/FOREST PRODUCTS RESULTS

	Full year ($000)			
Paper companies	**Sales**	**Change 1981/80**	**Earnings[1]**	**Change 1981/80**
Chesapeake	$282,596	9.6%	$26,230	11.9%
Consolidated	536,899	5.2	54,663	4.0
Crown Zellerbach	3,148,300	2.7	75,300	−22.7
Federal Paper	520,347	9.3	31,044	6.6
Fort Howard	471,261	18.6	83,050	20.9
GN Nekoosa	1,493,000	8.7	95,000	−3.7
Hammermill	1,399,694	13.9	46,638	14.2
Int'l. Paper	4,983,400	−1.2	265,500	−12.5
Kimberly-Clark	2,885,700	11.0	204,700	12.6
Longview (10/31)	389,450	8.8	11,261	750.5
Mead	2,899,722	7.1	106,874	−16.9
Pentair	223,982	6.2	8,153	−33.7
St. Regis	2,880,183	3.5	179,218	1.0
Scott	2,309,444	10.9[2]	133,340	32.1[2]
Sonoco	533,349	8.8	38,491	18.4
SW Forest	779,461	5.6	16,102	−50.1
Union Camp	1,665,868	5.8	168,948	2.3
Westvaco	1,550,529	10.0	100,791	16.0
Willamette	975,640	3.8	28,604	−51.4
Total	**29,926,818**	**6.0**	**1,567,033**	**−7.4**
Forest products				
Boise Cascade	3,107,360	2.9	120,080	−11.3
Champion Int'l.	4,004,027	6.7	119,646	−34.4
Georgia-Pacific	5,414,000	7.9[2]	160,000	−34.2[2]
Louis.-Pacific	1,023,050	−14.4	26,260	−56.2
Pope & Talbot	236,117	10.7	2,711	−75.6
Potlatch	880,493	7.6	57,804	18.6
Weyerhaeuser	4,501,512	−0.8	234,444	−27.1
Total	**19,166,559**	**3.3**	**720,965**	**−22.1**
U.S. total	**49,095,377**	**4.9**	**2,287,998**	**−15.1**

CANADIAN PAPER INDUSTRY RESULTS

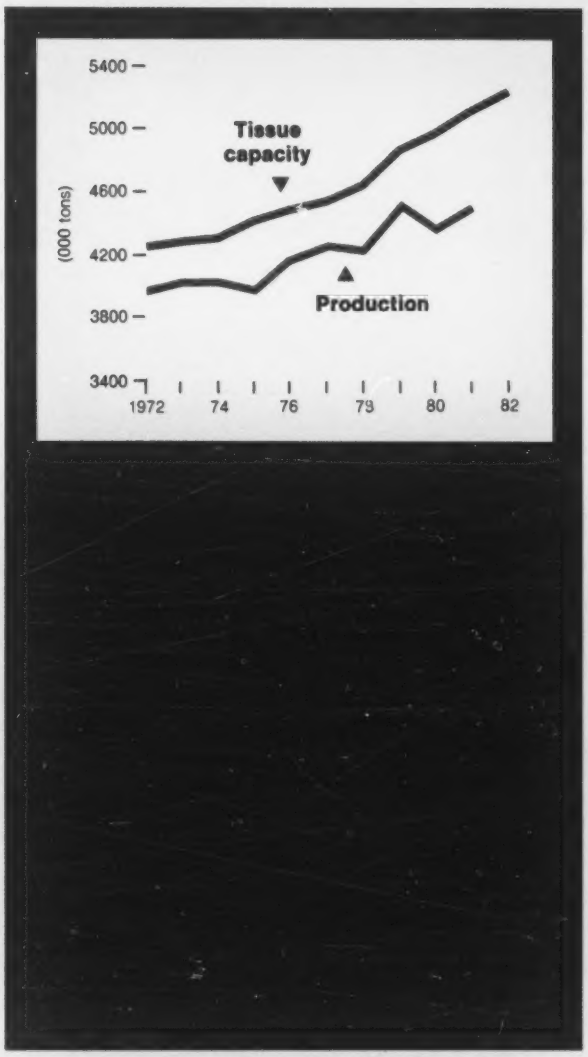
B.C. Forest	C$814,900	−4.2	C$17,200	−71.6
Con-Bathurst	1,479,000	6.5	101,800	−16.8
CZ Canada	653,100	−1.3	17,100	−53.0
Domtar	1,760,000	6.7	59,400	−38.5[3]
Great Lakes	568,594	5.4	77,774	−4.4
Total	**5,275,594**	**3.8**	**273,274**	**−30.5**

1. Income after taxes, from continuing operations, excluding most significant nonrecurring items in both years. 2. 1980 figures restated by company.

Tissue: Production back up for 1981, but flat in 1982; operating rates are down

Statistics	1980	1981	1982e
Production, 000 tons[1]	4375	4500	4500
Capacity, 000 tons	4961	5035	5220
Utilization rates, %	88.2	89.4	86.2
Imports	4	7	5
Exports	60	60	55
Apparent U.S. consumption			
000 tons	4319	4447	4450
lb/capita	38.8	39.6	39.2
000 tons/$ billion real GNP	2.91	2.94	2.95

[1]API data on production



Grade structure: Tissue is composed of two major classes—sanitary and "other." Sanitary tissue includes facial tissue, paper napkins, bathroom tissue, toweling, and basestock for sanitary stock, wadding, and wipers. Other includes basestock for waxing, wrapping, and miscellaneous tissue. Sanitary tissue can be further divided into consumer and industrial grades. Typical basis weights for single-ply toilet tissue are 12 to 14 lb/3000 ft², and for single-ply towel, 32 to 39 lb/3000 ft².

Production/capacity: Tissue production in 1981 increased to 4.5 million tons, up 2.9% from total 1980 production of 4.37 million tons. In late 1981, several producers experienced downtime, including Procter & Gamble and Scott Paper. Total U.S. capacity for 1981 was 5.03 million tons, representing an operating rate of about 89%.

In 1981, net capacity increased only about 75,000 tpy due to the shutdown of several smaller machines. In 1982, capacity will jump 3.7% to 5.22 million tons. Wisconsin Tissue Mills will bring a new 60,000-tpy machine utilizing recycled fiber online in late 1982 or early 1983.

From 1970-81, production and capacity have grown at average annual rates of 1.9% and 2.2%, respectively.

Outlook: Most economic forecasts project the growth in real GNP to be basically flat in 1982. This will most likely result in 1982 tissue production being similar to last year, at around 4.5 million tons. Due to the growth in capacity, this will drop operating rates to about 86%.

Several new product developments have occurred recently, including the introduction of Kimberly-Clark's Softique facial tissue. There are two versions available; wet-formed on the West Coast, and a limited amount of the air-laid version in test market in upstate New York. Procter & Gamble's introduction of Summit, a lower-cost product, illustrates the increased competition in these grades. Consumers have been trading down to lower-price and -performance products.

In the high-cost, high-performance toilet tissue market, one producer has reportedly recently lowered the number of sheets/roll through the use of layering technology that produces a higher-bulk product.

Pricing: Prices of tissue basestock are generally not quoted, but wholesale price indexes of converted tissue product generally reflect trends of basic tissue grades: 1970, 115.1; 1972, 121.0; 1974, 155.7; 1975, 194.7; 1976, 214.7; 1977, 236.7; 1978, 253.3; 1979, 279.4; 1980, 343.4; 1981, 349.2.

Based on the producer price index, tissue prices in general advanced almost 23% in 1980, but in 1981 they advanced only 1.7%. Prices had been stable for almost 18 months until some producers increased them 7% in September 1981. Several unsuccessful attempts had previously been made to up prices.

Market: End uses for tissue papers are: 39%, toilet (52% single-ply and 48% multi-ply); 32%, towels; 8%, facial tissue; 11%, napkins; 5%, wipes; and 5%, nonsanitary.

Pulp mill soda ash consumption declining slowly

By BARRY SHOCKETT

The depressed U.S. economy has affected most sodium carbonate (Na_2CO_3) markets, but pulp mill usage has stayed relatively stable. Na_2CO_3 exports increased from 1978 to 1980, but domestic usage has been moving slowly downward.

When caustic soda supplies were tight in 1980, soda ash was substituted in some cases. If caustic supplies tighten noticeably, more substitution could occur, but the cost of dry bulk handling facilities required for this is a deterrent.

Foreign markets, like Europe, are the major growth areas for Na_2CO_3 demand.

In Canada, total sodium carbonate demand increased modestly in 1981, but its use in pulp mills dropped off slightly.

In 1978-79, most sulfite and NSSC pulp mills replaced Na_2CO_3 with caustic soda and the long-term prospect for soda ash is questionable.

U.S. production and consumption of sodium carbonate
(000 short tons)

	1978	1979	1980	1981e
Capacity	9620	10100	9620	10360
Production	8290	8253	8275	8350
Imports	8	40	18.3	11
Exports	779	997	1094	990
Apparent consumption*	7544	7306	7132	7254
Glass**	4170	3995	3851	3840
Chemicals	1720	1686	1426	1420
Pulping	260	252	250	250
Other	1394	1373	1605	1744

* Based on plant stocks adjustments as well as the traditional production plus imports minux exports "equation"
** Including container, sheet, and fibers

Canadian production and consumption of sodium carbonate
(000 short tons)

	1978	1979	1980	1981e
Capacity	451	441	441	441
Production	380.5	395	397	420.5
Total demand	569	558	557	564
Glass, including fibers	276	310	319.5	333
Chemicals	83.5	85	94.5	95
Pulping	92.5	51.5	29	27
Detergents, cleaners	25.5	26.5	27.5	28
Miscellaneous*	91.5	85	90.5	81
Imports	194	202	178	154
Exports	5.5	39	18	10.8

* Including mining, smelting, and water treatment

SODIUM CARBONATE

UNITED STATES

Uses: Primary pulp and paper industry use of Na_2CO_3 is in sulfite mills (for cooking liquor). Some kraft mills use soda ash for makeup liquor. The largest user is the glass industry, followed by chemical production, synthetic detergents, water treatment, and other uses.

Demand: U.S. pulp mill soda ash use in 1981 was an estimated 250,000 tons, the same as 1980, and represented 3% to 3.5% of total demand. Glassmakers, who used an estimated 3.8 million tons (53%), largely control the market.

Availability: Natural soda ash production capacity will increase later this year, when Tenneco's new one-million-ton plant goes onstream, insuring an adequate supply for the foreseeable future.

Sources: Most soda ash comes from natural deposits in Wyoming and California, with some synthetic product produced by the solvay process. The major producers include Allied, FMC, Kerr-McGee, Stauffer, and Texasgulf.

Pricing: Prices did not increase at the start of 1982 as they have in past years; no increase is foreseen in the first half of the year. Natural soda ash price is $92/ton for bulk shipments, f.o.b. Wyoming, and $106.25/ton, f.o.b. Trona, Calif., freight equalized with Wyoming shipping points. Synthetic product is listed at $132/ton, f.o.b. Syracuse, N.Y. Pricing history: natural, 1981, $86-$92/ton f.o.b. Wyoming; 1980, $76-$86/ton; 1979, $61-$66/ton; synthetic, 1981, $126-$132/ton; 1980, $113-$123/ton; 1979, $96-$101/ton.

Forecast: Domestic demand is expected to grow 1% to 1.5%/year. Pulp mill usage in 1982 is estimated at 257,000 tons. Exports should grow at least 10%/year.

CANADA

Uses: Sodium carbonate is used in sulfite mills for cooking liquor and in kraft mills to supplement the caustic in makeup liquor. Others include glass, chemicals, and mining.

Demand: Canadian pulp mill usage has dropped dramatically over the last few years to an estimated 27,000 tons in 1981. The glass industry used about 333,000 tons in 1981 (59%).

Sources: There is one domestic sodium carbonate producer in Canada, Allied Chemical, which is a solvay-process facility, and the remainder is imported.

Availability: Although domestic capacity cannot meet demand, imports make up the difference.

Pricing: Prices are not expected to change until the second or third quarter. Current price for bulk product, f.o.b. Amherstburg is $183/ton. Small-volume users are charged an extra $3/ton. Pricing history: 1981, $168-$183/ton; 1980, $145-$160/ton; 1979, $108-$128/ton.

Forecast: Sulfite pulp mill consumption will slightly decrease by 1985.

Mr. Shockett is consulting editor-chemical markets for PULP & PAPER.